

December 18, 2012

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Rating	Accumulate
Price	Rs1,206
Target Price	Rs1,400
Implied Upside	16.1%
Sensex	19,244
Nifty	5,858

(Prices as on December 17, 2012)
Trading data

Market Cap. (Rs bn)	2,359.4
Shares o/s (m)	1,957.2
3M Avg. Daily value (Rs m)	1679

Major shareholders

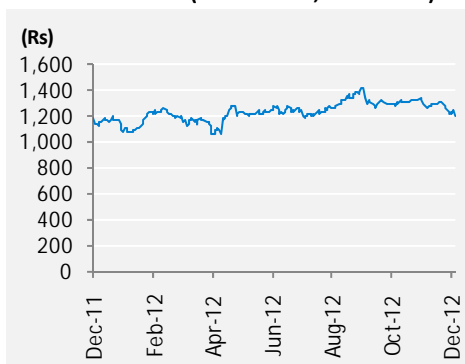
Promoters	73.98%
Foreign	14.63%
Domestic Inst.	6.71%
Public & Other	4.68%

Stock Performance

(%)	1M	6M	12M
Absolute	(6.3)	(5.3)	5.8
Relative	(11.4)	(18.8)	(18.4)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	70.0	69.3	1.1
2014	78.2	76.5	2.2

Price Performance (RIC: TCS.BO, BB: TCS IN)


Source: Bloomberg

We attended Tata Consultancy Services' (TCS)' "Sell Side Analysts' Meet" on December 17, 2012. The management retained its stance on a stable outlook for FY13. However, Q3FY13 performance is likely to be impacted by lower number of working days and furloughs. **The company didn't share median consensus expectation for the quarter. We tweak our model for higher tax rate, hence revise our target price to Rs1,400 (from Rs1,450).**

- **~3% negative impact due to lower working days and furloughs:** According to the management, the quarter will be impacted by lower working days (1 day) and furloughs (~1.5 days). **1)** Q3 generally witnesses furloughs from Hi-tech, manufacturing and telecom clients. **2)** BFSI also witnesses furloughs in the quarter. However, the furloughs are not an indication of any budget cuts. **3)** Lower growth in Europe due to weakness in telecom vertical **4)** North America likely to deliver positive volume growth despite usual headwinds including Sandy **5)** In terms of service line, the growth is likely to be evenly poised. **6)** There is no pricing pressure, but didn't rule out volume discount.
- **Gross addition likely to be lower, but fresher addition strong:** The company is likely to have weak laterals additions but strong fresher additions. The management does not expect any spill-over in fresher addition to FY14. Moreover, guidance for FY14 fresher addition of 25k is retained. Also, the supply-side constraint will continue pushing subcontracting cost but at a slower pace.
- **Margin decline to continue, but strict vigil on 27% operating margin guidance:** The management expects decline in margin due to lower working days, higher fresher intakes and forex movement. However, they reiterated their goal of 27% EBIT margin. The management was confident of recouping margin in Q4FY13. Q2FY13 & Q1FY13 operating margins were 26.8% and 27.5%, respectively.
- **Tax rate stable, forex loss due to premium charged for option:** The hedging loss for Q3FY13 is likely to be Rs340-350m, compared to gain of Rs130m in Q2FY13. There will be positive asset translation impact in the quarter due to currency movement. Tax rate for the quarter is likely to be stable.
- **Valuation & Recommendation:** We retain our "Accumulate" rating.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	373,245	488,938	629,467	704,834
Growth (%)	24.3	31.0	28.7	12.0
EBITDA (Rs m)	111,984	144,176	178,881	198,814
PAT (Rs m)	91,395	106,441	136,991	153,088
EPS (Rs)	46.7	54.4	70.0	78.2
Growth (%)	39.3	16.5	28.7	11.8
Net DPS (Rs)	23.3	19.8	25.0	28.0

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	30.0	29.5	28.4	28.2
RoE (%)	39.4	36.7	37.0	33.0
RoCE (%)	38.6	35.1	37.1	33.4
EV / sales (x)	6.2	4.7	3.6	3.2
EV / EBITDA (x)	20.6	16.0	12.7	11.2
PE (x)	25.8	22.2	17.2	15.4
P / BV (x)	9.3	7.3	5.7	4.6
Net dividend yield (%)	1.9	1.6	2.1	2.3

Source: Company Data; PL Research

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Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	373,245	488,938	629,467	704,834
Raw Material Expenses	204,296	264,580	358,421	400,478
Gross Profit	168,949	224,358	271,046	304,357
Employee Cost	—	—	—	—
Other Expenses	56,965	80,182	92,165	105,542
EBITDA	111,984	144,176	178,881	198,814
Depr. & Amortization	7,214	9,035	11,327	13,029
Net Interest	(4,229)	—	(9,206)	(11,744)
Other Income	9,553	4,041	10,756	13,512
Profit before Tax	114,324	139,181	178,310	199,297
Total Tax	21,739	31,688	40,120	44,842
Profit after Tax	92,585	107,493	138,190	154,455
Ex-Od items / Min. Int.	(1,190)	(1,052)	(1,200)	(1,367)
Adj. PAT	91,395	106,441	136,991	153,088
Avg. Shares O/S (m)	1,957.2	1,957.2	1,957.2	1,957.2
EPS (Rs.)	46.7	54.4	70.0	78.2

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	69,148	75,440	102,855	128,588
C/F from Investing	(18,663)	(29,498)	(26,438)	(29,603)
C/F from Financing	(13,384)	(1,602)	(48,930)	(54,802)
Inc. / Dec. in Cash	37,101	44,341	27,487	44,183
Opening Cash	10,249	15,538	59,878	87,365
Closing Cash	47,350	59,878	87,365	131,549
FCFF	60,567	57,921	75,218	97,618
FCFE	60,836	58,694	75,218	97,618

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	24.3	31.0	28.7	12.0
EBITDA (%)	29.0	28.7	24.1	11.1
PAT (%)	39.3	16.5	28.7	11.8
EPS (%)	39.3	16.5	28.7	11.8
Profitability				
EBITDA Margin (%)	30.0	29.5	28.4	28.2
PAT Margin (%)	24.5	21.8	21.8	21.7
RoCE (%)	38.6	35.1	37.1	33.4
RoE (%)	39.4	36.7	37.0	33.0
Balance Sheet				
Net Debt : Equity	(0.2)	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	25.8	22.2	17.2	15.4
P / B (x)	9.3	7.3	5.7	4.6
EV / EBITDA (x)	20.6	16.0	12.7	11.2
EV / Sales (x)	6.2	4.7	3.6	3.2
Earnings Quality				
Eff. Tax Rate	19.0	22.8	22.5	22.5
Other Inc / PBT	8.4	2.9	6.0	6.8
Eff. Depr. Rate (%)	8.6	8.5	8.5	8.0
FCFE / PAT	66.6	55.1	54.9	63.8

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	254,155	325,233	414,494	514,147
Total Debt	380	1,154	1,154	1,154
Other Liabilities	13,742	16,428	16,428	16,428
Total Liabilities	268,278	342,815	432,075	531,729
Net Fixed Assets	51,996	64,548	79,659	96,233
Goodwill	34,064	34,929	34,929	34,929
Investments	18,390	14,781	14,781	14,781
Net Current Assets	105,726	153,217	227,367	310,446
<i>Cash & Equivalents</i>	<i>47,350</i>	<i>59,879</i>	<i>87,365</i>	<i>131,549</i>
<i>Other Current Assets</i>	<i>116,406</i>	<i>162,514</i>	<i>215,794</i>	<i>251,642</i>
<i>Current Liabilities</i>	<i>58,030</i>	<i>69,175</i>	<i>75,793</i>	<i>72,745</i>
Other Assets	58,101	75,340	75,340	75,340
Total Assets	268,278	342,815	432,075	531,729

Quarterly Financials (Rs m)

Y/e March	Q1FY12	Q2FY12	Q4FY12	Q2FY13
Net Revenue	107,970	116,335	132,594	156,208
EBITDA	30,310	33,829	39,116	44,404
<i>% of revenue</i>	<i>28.1</i>	<i>29.1</i>	<i>29.5</i>	<i>28.4</i>
Depr. & Amortization	2,049	2,286	2,397	2,615
Net Interest	—	—	—	(2,264)
Other Income	2,886	997	1,078	3,103
Profit before Tax	31,147	32,540	37,796	44,892
Total Tax	7,063	7,913	8,174	9,443
Profit after Tax	23,803	24,390	29,382	35,396
Adj. PAT	23,803	24,390	29,382	35,396

Key Operating Metrics

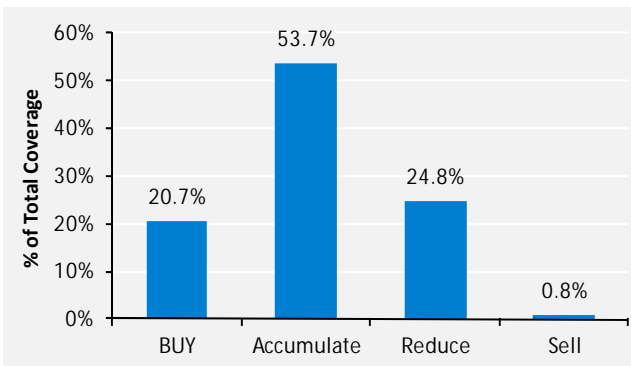
Y/e March	2011	2012	2013E	2014E
Volume (persons month)	1,588,419	1,968,865	2,283,883	2,603,627
Pricing (US\$ / Hr)	33.5	33.9	33.5	34.1
Currency (USDINR)	45.6	48.1	54.0	52.0
SW Devp. Cost (% of Sales)	54.7	54.1	56.9	56.8
SG&A (% of Sales)	15.3	16.4	14.6	15.0
Revenue (US\$ m)	8,186	10,171	11,657	13,555
EBITDA Margin Expansion/(Erosion) (bps)	110	(52)	(107)	(21)
Tax Rate (%)	19.0	22.8	22.5	22.5

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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